

**REPORT OF THE AUDIT OF THE
SHELBY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE SHELBY COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Shelby County Fiscal Court for fiscal year ended June 30, 2004. We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$20,255,945 as of June 30, 2004. The fiscal court had unrestricted net assets of \$9,175,754 in its governmental activities as of June 30, 2004, with total net assets of \$ 20,165,897. In its enterprise fund, total net cash and cash equivalents were \$81,736 with total net assets of \$90,048.

Report Comment:

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Deposits:

On August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$374,173 of public funds uninsured and unsecured. On June 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$79,603 of public funds uninsured and unsecured.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Shelby County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Shelby County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Shelby County, Kentucky's basic financial statements. The accompanying supplementary information, combining financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2005 on our consideration of Shelby County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 20, 2005

SHELBY COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Rob Rothenburger	County Judge/Executive
Tony Carriss	Magistrate
Jim Robertson	Magistrate
Cordy Armstrong	Magistrate
Michael Riggs	Magistrate
Betty Curtsinger	Magistrate
Hubert Pollett	Magistrate
Allen Ruble	Magistrate

Other Elected Officials:

Charles Hickman	County Attorney
Bobby Waits	Jailer
Sue Carole Perry	County Clerk
Kathy Nichols	Circuit Court Clerk
Mike Armstrong	Sheriff
Brad McDowell	Property Valuation Administrator
Tommy Sampson	Coroner

Appointed Personnel:

Paula Webb	County Treasurer
James Ray Wiley	Occupational Tax Collector
Karen Blake	Finance Officer

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ROB ROTHENBURGER

Shelby County Judge Executive

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Management Discussion and Analysis

As financial management of the Shelby County Fiscal Court, we offer readers of these government-wide financial statements this narrative overview and analysis of the financial activities of the Fiscal Court for the fiscal year ended June 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant financial issues and activities and to identify any significant changes in our financial position. We encourage readers to consider the information presented here in conjunction with the government-wide financial statements as a whole.

Overview of the Government-wide Financial Statements

The County's basic financial statements, which consists of two government-wide and various fund financial statements, are designed to provide readers with a broad overview of the Fiscal Courts finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information government-wide on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fiscal Court is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities, result in increased net assets, which indicate an improved financial position.

The Statement of Activities presents information showing how a government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows.

The government-wide financial statements consist of a balance sheet and a statement of revenues and expenditures. The government-wide financial statements focus on how money flows into and out of the funds. The funds balance at year-end shows what is available for spending in future periods. The reconciliation at the bottom of these statements shows how the government-wide statements, the statement of net assets, and the statement of activities differ from one another.

The notes provide additional information that is essential to a full understanding of the data provided in the basic government-wide financial statements.

Financial Highlights

The Statement of Net Assets shows the Fiscal Court has \$9,473,575 in current assets and \$16,135,370 in non-current assets. Current assets consist of cash and cash equivalents. Non-current assets consist of capital assets (land, land improvements, vehicles, buildings and equipment, etc.) net of depreciation, which are shown as \$4,243,748. The liabilities of the Fiscal Court are non-current liabilities A) due within one year are \$279,000, B) due in more than one year are \$5,074,000, total non-current liabilities are \$5,353,000. Net assets are \$20,255,945, total assets minus total liabilities, (\$25,608,945 minus \$5,353,000). From year to year, changes in net assets are an indicator of the Fiscal Court's financial position.

The Statement of Activities shows government-wide revenues for the Shelby County Fiscal Court were \$8,520,508 for fiscal year 2004. The majority of revenues were property tax assessments.

**Shelby County
Management's Discussion and Analysis
For The Year Ended June 30, 2005
(Continued)**

The government-wide statements show the inflow and outflow of cash receipts and cash expenditures. The change in fund balance of \$1,041,089 shows that the Fiscal Court used all of its available current year revenues. General revenues were \$12,180,164; operating expense and capital outlay were \$13,221,253. Expenditures exceeded revenues by \$1,041,089. Therefore, the Fiscal Court had a decrease in its fund balance.

Financial Analysis of the County's Funds

As noted earlier, Shelby County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Shelby County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

The County has four major governmental funds. These are 1) general fund, 2) road fund, 3) jail fund, 4) EMS fund, there are three non-major funds, and they are A) L.G.E.A fund and B) KACoLT fund, C) Special fund.

1. The General fund is the chief operating fund of Shelby County. The Fiscal year (July 1, 2003) began with a fund balance of \$8,256,873, the fiscal year ending showed, \$8,815,838 in revenues, and \$7,343,820 in expenditures with an ending balance as of June 30, 2004 of \$7,033,391.

2. The road fund is the fund related to county road and bridge construction and maintenance. The fiscal year (July 1, 2003, began a fund balance of \$1,477,633, the fiscal year ending show, \$1,383,940 in revenues, \$1,976,360 in expenditures and \$700,000 in transfers with a ending balance of - \$1,585,213.

3. The jail fund is used to account for the operation of the County's detention program. The beginning balance (July 1, 2003) was \$48,240, the fiscal year ending showed, \$789,593 in revenues, \$1,885,877 in expenditures, and \$1,066,000 in transfers with an ending balance of \$17,956.00.

4. The EMS fund is used to fund the operations of the ambulance service to meet the needs of the sick and injured throughout the county. The beginning balance (July 1, 2003) was \$3500.00; the fiscal year ending (June 30, 2004) showed \$1,010,491 in revenues and \$1,909,705 in expenditures and \$929,500 in transfers with an ending balance of \$33,786.

Non-major Funds Overview: (L.G.E.A., Special and KACoLT Funds) The beginning balance (July 1, 2003) was \$520,992, the ending balance (June 30, 2004) showed \$180,302 in revenues and \$105,491 in expenditures with an ending balance of \$595,803.

Proprietary Funds Overview: The County's proprietary fund statement provides the same type of information found in the business-type activities column of the government-wide statements, but in more detail.

The canteen jail fund had net assets of \$77,214 as of June 30, 2003 and a cash balance of \$90,048.

The health fund had net assets of \$0.00 as of June 30, 2003 and a cash balance of \$125,690.

**Shelby County
Management's Discussion and Analysis
For The Year Ended June 30, 2005
(Continued)**

General Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$343,795. Budget amendments were made to all areas due to grants, surplus cash carried forward and increase in actual Occupational Tax collections as opposed to projected collection.

Actual operating revenues were \$2,814,435 more than originally budgeted by Fiscal Court. This increase was primarily from intergovernmental sources and tax revenues.

Actual operating expenditures were \$1,773,346 more than originally budgeted by Fiscal Court.

Capital Assets and Debt Administration

Capital Assets: Shelby County's investment in capital assets for its government and business type activities as of June 30, 2004, amount to \$20,255,945. This investment in capital assets includes IT equipment, vehicles, road equipment, and water and sewer projects. Shelby County has elected to report infrastructure assets per GASB 34 provisions.

Major capital asset events during the 2003-04 fiscal year included purchase of 1 ambulance, road department dump truck and bulldozer, sheriff's department 5 vehicles, County judge-executive's office 1 vehicle, purchase of 11 acres for park land, and several computers for county government.

Long-term debt. At the end of the 2003-04 fiscal years, Shelby County had total long-term debt outstanding of \$5,353,000. The amount of this debt due within the next year is \$279,000. This debt is for the Family Activity Center, Meadowbrook sewer project, and KACoLT Loans.

Short-term debt. At the end of the 2003-04 fiscal years, Shelby County had no short-term debts.

Other matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2004-05 fiscal year budgets:

The 2004-05 fiscal years Adopted Budget continues most services at current levels.

Programs cuts at the State and Federal level, particularly relating to the cost of housing prisoners, may have a negative impact on funding of county operations impacted by State revenue shortfalls.

Request for Information:

This financial report is designed to provide a general overview of Shelby County's government-wide finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to: Paula Webb, Shelby Co. Fiscal Court Treasurer, 501 Main Street, Suite 13, Shelbyville, Ky. 40065, 502-633-3909

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SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

SHELBY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 9,391,839	\$ 81,736	\$ 9,473,575
Total Current Assets	<u>9,391,839</u>	<u>81,736</u>	<u>9,473,575</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	647,825		647,825
Buildings	9,727,514		9,727,514
Vehicles	1,016,493		1,016,493
Equipment	491,478	8,312	499,790
Infrastructure Assets - Net of Depreciation	<u>4,243,748</u>		<u>4,243,748</u>
Total Noncurrent Assets	<u>16,127,058</u>	<u>8,312</u>	<u>16,135,370</u>
Total Assets	<u>25,518,897</u>	<u>90,048</u>	<u>25,608,945</u>
LIABILITIES			
Current Liabilities:			
General Obligation Bonds	200,000		200,000
Financing Obligations	79,000		79,000
Total Current Liabilities	<u>279,000</u>		<u>279,000</u>
Noncurrent Liabilities:			
General Obligation Bonds	4,400,000		4,400,000
Financing Obligations	674,000		674,000
Total Noncurrent Liabilities	<u>5,074,000</u>		<u>5,074,000</u>
Total Liabilities	<u>5,353,000</u>		<u>5,353,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	10,774,058	8,312	10,782,370
Restricted For:			
Debt Service	216,085		216,085
Unrestricted	<u>9,175,754</u>	<u>81,736</u>	<u>9,257,490</u>
Total Net Assets	<u>\$ 20,165,897</u>	<u>\$ 90,048</u>	<u>\$ 20,255,945</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs Reporting Entity	Program Revenues Received			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,410,253	\$ 105,812	\$ 193,717	\$
Protection to Persons and Property	3,447,017	1,559,732	428,694	
General Health and Sanitation	646,968	10,948	112,954	
Social Services	428,541			
Recreation and Culture	815,999			
Roads	1,484,535		220,225	1,029,376
Interest On Long-term Debt	43,205			
Capital Projects	185,288			
Total Governmental Activities	<u>12,461,806</u>	<u>1,676,492</u>	<u>955,590</u>	<u>1,029,376</u>
Business-type Activities:				
Jail Canteen Fund	110,649	123,266		
Total Business-type Activities	<u>110,649</u>	<u>123,266</u>		
Total Primary Government	<u>\$ 12,572,455</u>	<u>\$ 1,799,758</u>	<u>\$ 955,590</u>	<u>\$ 1,029,376</u>

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (5,110,724)	\$	\$ (5,110,724)
(1,458,591)		(1,458,591)
(523,066)		(523,066)
(428,541)		(428,541)
(815,999)		(815,999)
(234,934)		(234,934)
(43,205)		(43,205)
(185,288)		(185,288)
<u>(8,800,348)</u>		<u>(8,800,348)</u>
	<u>12,617</u>	<u>12,617</u>
	<u>12,617</u>	<u>12,617</u>
<u>\$ (8,800,348)</u>	<u>\$ 12,617</u>	<u>\$ (8,787,731)</u>
\$ 2,073,121	\$	\$ 2,073,121
56,477		56,477
337,468		337,468
3,269,748		3,269,748
653,379		653,379
1,995,905		1,995,905
134,193	217	134,410
<u>8,520,291</u>	<u>217</u>	<u>8,520,508</u>
(280,057)	12,834	(267,223)
<u>20,445,954</u>	<u>77,214</u>	<u>20,523,168</u>
<u>\$ 20,165,897</u>	<u>\$ 90,048</u>	<u>\$ 20,255,945</u>

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

June 30, 2004

SHELBY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>EMS Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and Cash Equivalents	\$ 7,033,391	\$ 1,585,213	\$ 17,956	\$ 33,786	\$ 595,803	\$ 9,266,149
Total Assets	<u>\$ 7,033,391</u>	<u>\$ 1,585,213</u>	<u>\$ 17,956</u>	<u>\$ 33,786</u>	<u>\$ 595,803</u>	<u>\$ 9,266,149</u>
FUND BALANCES						
Unreserved:						
General Fund	\$ 7,033,391					\$ 7,033,391
Special Revenue Funds		1,585,213	17,956	33,786	379,718	2,016,673
Debt Service Fund					216,085	216,085
Total Fund Balances	<u>\$ 7,033,391</u>	<u>\$ 1,585,213</u>	<u>\$ 17,956</u>	<u>\$ 33,786</u>	<u>\$ 595,803</u>	<u>\$ 9,266,149</u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 9,266,149
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	23,778,419
Depreciation	(7,651,361)
Internal Service Fund Net Assets Reported in Governmental Activities	125,690
Long-term debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(753,000)
Bonded Debt	<u>(4,600,000)</u>
Net Assets of Governmental Activities	<u>\$ 20,165,897</u>

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>EMS Fund</u>
REVENUES				
Taxes	\$ 5,614,140	\$	\$	\$
Excess Fees	653,379			
Licenses and Permits	100,987			
Intergovernmental	547,288	1,219,159	627,088	11,133
Charges for Services	20,544		109,046	966,092
Miscellaneous	1,770,678	143,844	53,459	32,750
Interest	108,822	20,937		516
Total Revenues	<u>8,815,838</u>	<u>1,383,940</u>	<u>789,593</u>	<u>1,010,491</u>
EXPENDITURES				
General Government	2,831,060			
Protection to Persons and Property	811,433	1,033	1,510,419	1,437,526
General Health and Sanitation	573,998			
Social Services	418,865			
Recreation and Culture	930,872			
Roads		1,619,197		
Debt Service	80,148			
Capital Projects		185,288		
Administration	1,697,444	170,842	375,458	472,179
Total Expenditures	<u>7,343,820</u>	<u>1,976,360</u>	<u>1,885,877</u>	<u>1,909,705</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,472,018</u>	<u>(592,420)</u>	<u>(1,096,284)</u>	<u>(899,214)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds		700,000	1,066,000	929,500
Transfers To Other Funds	(2,695,500)			
Total Other Financing Sources (Uses)	<u>(2,695,500)</u>	<u>700,000</u>	<u>1,066,000</u>	<u>929,500</u>
Net Change in Fund Balances	(1,223,482)	107,580	(30,284)	30,286
Fund Balances - Beginning (Restated)	8,256,873	1,477,633	48,240	3,500
Fund Balances - Ending	<u>\$ 7,033,391</u>	<u>\$ 1,585,213</u>	<u>\$ 17,956</u>	<u>\$ 33,786</u>

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
\$	\$ 5,614,140
	653,379
	100,987
177,970	2,582,638
	1,095,682
	2,000,731
2,332	132,607
<u>180,302</u>	<u>12,180,164</u>
	2,831,060
	3,760,411
70,410	644,408
	418,865
	930,872
	1,619,197
35,057	115,205
	185,288
24	2,715,947
<u>105,491</u>	<u>13,221,253</u>
<u>74,811</u>	<u>(1,041,089)</u>
	2,695,500
	<u>(2,695,500)</u>
	74,811
	(1,041,089)
520,992	10,307,238
<u>\$ 595,803</u>	<u>\$ 9,266,149</u>

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**SHELBY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ (1,041,089)
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets is Allocated Over Their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	1,331,050
Depreciation Expense	(962,708)
Internal Service Fund Overcharge Elimination and Interest Earned	125,690
Lease and Bond Principal Payments are Expensed in the Governmental Funds as a Use of Current Financial Resources.	
Financing Obligations	72,000
Bond Payments	<u>195,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (280,057)</u></u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2004

SHELBY COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2004

	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Benefit Fund
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 81,736	\$ 125,690
Total Current Assets	81,736	125,690
Noncurrent Assets:		
Capital Assets:		
Vehicles and Equipment	9,035	
Less Accumulated Depreciation	(723)	
Total Noncurrent Assets	8,312	
Total Assets	90,048	125,690
Net Assets		
Invested in Capital Assets, Net of Related Debt	8,312	
Unrestricted	81,736	125,690
Total Net Assets	\$ 90,048	\$ 125,690

The accompanying notes are an integral part of the financial statements.

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**SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

**SHELBY COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Benefit Fund</u>
Operating Revenues		
Premiums	\$	\$ 909,533
Canteen Receipts	123,266	
Total Operating Revenues	<u>123,266</u>	<u>909,533</u>
Operating Expenses		
Cost of Sales	56,885	
Educational and Recreational	47,203	
Depreciation	723	
Administrative Expense		785,428
Total Operating Expenses	<u>104,811</u>	<u>785,428</u>
Operating Income	<u>18,455</u>	<u>124,105</u>
Nonoperating Revenues (Expenses)		
Interest Income	217	1,585
Bank Charges	(162)	
Inmate Pay From State	6,640	
Inmate Refunds	(12,316)	
Total Nonoperating Revenues (Expenses)	<u>(5,621)</u>	<u>1,585</u>
Change In Net Assets	12,834	125,690
Total Net Assets - Beginning	77,214	
Total Net Assets - Ending	<u>\$ 90,048</u>	<u>\$ 125,690</u>

The accompanying notes are an integral part of the financial statements.

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SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Enterprise Fund	Internal Service Fund
	Jail Canteen Fund	Health Benefit Fund
Cash Flows From Operating Activities		
Receipts From Customers	\$ 123,266	\$ 909,533
Administrative Expense		(785,428)
Cost of Sales	(56,885)	
Educational and Recreational	(47,203)	
Net Cash Provided By Operating Activities	19,178	124,105
Cash Flows From Noncapital Financing Activities		
Inmate Pay From State	6,640	
Inmate Refunds on Accounts	(12,316)	
Net Cash Used By Noncapital Financing Activities	(5,676)	
Cash Flows From Capital and Related Financing Activities		
Capital Equipment Expenditure	(9,035)	
Net Cash Used By Capital and Related Financing Activities	(9,035)	
Cash Flows From Investing Activities		
Bank Charges	(162)	
Interest Earned	217	1,585
Net Cash Provided By Investing Activities	55	1,585
Net Increase in Cash and Cash Equivalents	4,522	125,690
Cash and Cash Equivalents - July 1	77,214	
Cash and Cash Equivalents - June 30	\$ 81,736	\$ 125,690

The accompanying notes are an integral part of the financial statements.

SHELBY COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
	<u>Jail Canteen Fund</u>	<u>Health Benefit Fund</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	\$ 18,455	\$ 124,105
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities		
Depreciation Expense	723	
Net Cash Provided By Operating Activities	<u>\$ 19,178</u>	<u>\$ 124,105</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances is reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Shelby County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. The reporting entity includes no organizations that are legally separate from the primary government.

C. Shelby County Elected Officials Not Part Of Shelby County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Shelby County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Shelby County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary and fiduciary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and proprietary funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major proprietary funds are reported as separate columns in the financial statements.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

EMS Fund - This fund is used to account for the county emergency medical service activities. Revenues are received from patients and transfers from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Special Fund, and KACOLT Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, EMS Fund and Special Fund are presented as special revenue funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The KACOLT Fund is presented as a debt service fund. Debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Health Benefit Fund – This fund accounts for the County's self-insurance activities for employee health care. Revenues are received from the administrative expenses of the governmental funds which pay employees of the County. Expenses are payments to health care providers, payments to the contracted administrator, and premiums for reinsurance.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings	50,000	10-75
Building Improvements	50,000	10-40
Machinery and Equipment	5,000	3-25
Infrastructure	30,000	10-50
Intangibles	5,000	2-40
Vehicles	5,000	5

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Shelby County Fiscal Court: U.S. 60 Water District and West Shelby Water District.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The county entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$374,173 of public funds uninsured and unsecured and on June 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$79,603 of public funds uninsured and unsecured.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 2. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of June 30, 2004.

	<u>Bank Balance</u>
Insured by FDIC	\$ 600,000
Collateralized with securities held by pledging depository institution in the county's name	8,586,546
Uncollateralized and uninsured	<u>79,603</u>
Total	<u><u>\$ 9,266,149</u></u>

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 592,825	\$ 55,000	\$	\$ 647,825
Total Capital Assets Not Being Depreciated	592,825	55,000		647,825
Capital Assets, Being Depreciated:				
Buildings	10,822,402	81,000		10,903,402
Vehicles	1,732,100	422,369		2,154,469
Equipment	503,389	317,952		821,341
Infrastructure	8,796,653	454,729		9,251,382
Total Capital Assets Being Depreciated	21,854,544	1,276,050		23,130,594
Less Accumulated Depreciation For:				
Buildings	(1,046,000)	(129,888)		(1,175,888)
Vehicles	(894,201)	(243,775)		(1,137,976)
Equipment	(284,519)	(45,344)		(329,863)
Infrastructure	(4,463,933)	(543,701)		(5,007,634)
Total Accumulated Depreciation	(6,688,653)	(962,708)		(7,651,361)
Total Capital Assets, Being Depreciated, Net	15,165,891	313,342		15,479,233
Governmental Activities Capital Assets, Net	\$ 15,758,716	\$ 368,342	\$ 0	\$ 16,127,058
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$	\$ 9,035	\$	\$ 9,035
Total Capital Assets Being Depreciated		9,035		9,035
Less Accumulated Depreciation For:				
Vehicles and Equipment		(723)		(723)
Total Accumulated Depreciation		(723)		(723)
Total Capital Assets, Being Depreciated, Net		8,312		8,312
Business-Type Activities Capital Assets, Net	\$ 0	\$ 8,312	\$ 0	\$ 8,312

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 12,911
Protection to Persons and Property	212,717
General Health and Sanitation	2,560
Recreation and Culture	80,127
Social Services	9,676
Roads, Including Depreciation of General Infrastructure Assets	<u>644,717</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 962,708</u>

Business-Type Activities

Jail Canteen	<u>\$ 723</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 723</u>

Note 4. Long-term Debt

A. Capital Leases – KACOLT Fund

1) US 60 Water District (Woodlawn)

On November 1, 1993, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$237,000. The purpose of the lease was for waterline extension. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$12,000 principal and \$7,173 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2004, was \$136,000.

2) US 60 Water District (Rockbridge)

On August 7, 1996, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$80,000. The purpose of the lease was for construction of rural water lines. The project was subleased to the US 60 Water District. During the fiscal year, the county received \$3,000 principal and \$3,531 interest from the US 60 Water District. The county then paid this money to Bank One (the trustee). The balance of the receivable and the liability on June 30, 2004, was \$60,000.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt

A. Capital Leases – KACOLT Fund (Continued)

3) Mt. Eden Fire District

On September 11, 2000, Shelby County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) Program for \$98,000. The purpose of the lease was for the construction of a firehouse. The project was subleased to the Mt. Eden Fire District. During the fiscal year, the county received \$2,000 principal and \$5,807 in interest from Mt. Eden Fire District. The county then paid this money to National City (the trustee). The balance of the receivable and the liability on June 30, 2004, was \$92,000.

The following is a schedule of future minimum lease payments as of June 30, 2003.

Year	US 60 Water District (Woodlawn)	US 60 Water District (Rockbridge)	Mt. Eden Fire District	Total
2005	\$ 20,187	\$ 7,797	\$ 7,561	\$ 35,545
2006	19,472	7,536	7,437	34,445
2007	19,733	7,276	8,257	35,266
2008	18,963	7,016	8,072	34,051
2009	19,169	6,755	7,887	33,811
2010-2014	74,875	35,966	37,605	148,446
2015-2019		13,949	37,654	51,603
2020-2024			35,792	35,792
2025-2026			13,499	13,499
Total Minimum Lease	172,399	86,295	163,764	422,458
Payment Less Interest	(36,399)	(26,295)	(71,764)	(134,458)
Present Value of Minimum Lease Payments	\$ 136,000	\$ 60,000	\$ 92,000	\$ 288,000

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

B. Capital Lease – General Fund

On June 21, 2001 the County entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust for the construction of sewer lines. The lease term for this agreement is 10 years with the balance to be paid in full January 20, 2011. The total balance of the agreement is \$465,000 as of June 30, 2004.

The following is a schedule of future minimum lease payments as of June 30, 2003:

Year	Meadow Brook Sewer Project
2005	\$ 82,095
2006	79,082
2007	80,964
2008	77,700
2009	79,332
2010-2011	<u>153,013</u>
Total Minimum Lease	\$ 552,186
Payment Less Interest	<u>(87,186)</u>
Present Value of Minimum Lease Payments	<u>\$ 465,000</u>

C. General Obligation Bonds, Series 1999

Shelby County Fiscal Court (County) issued general obligation bonds of \$5,200,000, series 1999, dated April 1, 1999, to fund the acquisition and construction of the Clear Creek Family Activities Center. These bonds were issued at varying interest rates ranging from 3.40% to 4.85%, and will be retired by August 1, 2020. Interest payments are due on February 1 and interest and principal August 1. Fiscal Court has entered into a lease agreement with the City of Shelbyville (City) and the Shelbyville/Shelby County Parks and Recreation Commissions (Parks Commission) for their portion of the bond issue. The City is responsible for \$500,000 in principal and interest payments; the Parks Commission \$2,200,000 in principal and interest payments and the County 2,500,000 in principal and interest. The City and the Parks Commission make their payments to the County, which in turn pays the paying agent. Principal payment requirements and scheduled interest for the retirement of the bonds are as follows:

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt (Continued)

C. General Obligation Bonds, Series 1999 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Interest	Principal
2005	\$ 203,490	\$ 200,000
2006	195,390	210,000
2007	186,836	215,000
2008	177,768	230,000
2009	168,013	240,000
2010-2014	671,803	1,355,000
2015-2019	319,334	1,725,000
2020-2021	20,734	425,000
Totals	<u>\$ 1,943,368</u>	<u>\$4,600,000</u>

D. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,795,000	\$	\$ 195,000	\$4,600,000	\$ 200,000
Financing Obligations	825,000		72,000	753,000	79,000
Governmental Activities					
Long-term Liabilities	<u>\$ 5,620,000</u>	<u>\$ 0</u>	<u>\$ 267,000</u>	<u>\$5,353,000</u>	<u>\$ 279,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Interest on long-term debt on the Statement of Activities includes \$43,205 in interest on financing obligations.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Shelby County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Subsequent Events

A. KACO Bond Issue

On September 21, 2004, Shelby County Fiscal Court passed an ordinance related to the issuance and sale of Kentucky Association of Counties Leasing Trust (KACOLT) Lease Program Revenue bonds amount of up to \$100,000,000 to provide funding for the KACOLT program; authorizing the sale of the bonds; approving participation in said program; approving and authorizing the execution and delivery of an indenture and a reimbursement agreement; and approving a preliminary official statement.

B. Jail Expansion Debt

On November 29, 2004 Shelby County Fiscal Court voted to authorize the execution of an agreement with KACOLT for a \$6,400,000 construction loan to be converted to a 20-year variable rate loan for the purpose of expanding the Detention Center.

SHELBY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 9. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The beginning net asset balance for the governmental activities was \$20,445,954, and the beginning fund balance for the governmental funds was \$10,307,238, for an increase of \$10,138,716. The effect of this change on the beginning net assets of the governmental activities is primarily due to capital assets previously not reported, and the effect of long-term debt.

Note 10. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction to arrive at estimated historical cost.

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SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,905,000	\$ 3,905,000	\$ 5,614,140	\$ 1,709,140
Excess Fees	259,079	259,079	653,379	394,300
Licenses and Permits	60,000	60,000	100,987	40,987
Intergovernmental Revenue	375,707	532,008	547,288	15,280
Charges for Services	10,000	10,340	20,544	10,204
Miscellaneous	1,460,448	1,507,988	1,770,678	262,690
Interest	75,000	75,000	108,822	33,822
Total Revenues	<u>6,145,234</u>	<u>6,349,415</u>	<u>8,815,838</u>	<u>2,466,423</u>
EXPENDITURES				
General Government	2,949,168	3,021,015	2,831,060	189,955
Protection to Persons and Property	813,161	1,102,030	811,433	290,597
General Health and Sanitation	845,058	863,620	573,998	289,622
Social Services	535,200	488,605	418,865	69,740
Recreation and Culture	945,096	956,123	930,872	25,251
Debt Service	89,961	82,094	80,148	1,946
Administration	2,167,118	1,892,886	1,697,444	195,442
Total Expenditures	<u>8,344,762</u>	<u>8,406,373</u>	<u>7,343,820</u>	<u>1,062,553</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(2,199,528)</u>	<u>(2,056,958)</u>	<u>1,472,018</u>	<u>3,528,976</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	<u>(2,245,306)</u>	<u>(2,245,306)</u>	<u>(2,695,500)</u>	<u>(450,194)</u>
Total Other Financing Sources (Uses)	<u>(2,245,306)</u>	<u>(2,245,306)</u>	<u>(2,695,500)</u>	<u>(450,194)</u>
Net Changes in Fund Balance	(4,444,834)	(4,302,264)	(1,223,482)	3,078,782
Fund Balance - Beginning	<u>4,444,834</u>	<u>4,444,834</u>	<u>8,256,873</u>	<u>3,812,039</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 142,570</u>	<u>\$ 7,033,391</u>	<u>\$ 6,890,821</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Occupational License Fee/Tax	\$ 500,000	\$ 500,000	\$	\$ (500,000)
Intergovernmental Revenue	891,955	948,867	1,219,159	270,292
Miscellaneous	65,000	122,522	143,844	21,322
Interest	15,000	15,000	20,937	5,937
Total Revenues	<u>1,471,955</u>	<u>1,586,389</u>	<u>1,383,940</u>	<u>(202,449)</u>
EXPENDITURES				
Protection to Persons and Property	1,000	1,033	1,033	
Roads	1,853,811	1,985,677	1,619,197	366,480
Capital Projects	620,000	622,000	185,288	436,712
Administration	327,416	307,951	170,842	137,109
Total Expenditures	<u>2,802,227</u>	<u>2,916,661</u>	<u>1,976,360</u>	<u>940,301</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,330,272)</u>	<u>(1,330,272)</u>	<u>(592,420)</u>	<u>737,852</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			700,000	700,000
Total Other Financing Sources (Uses)			<u>700,000</u>	<u>700,000</u>
Net Changes in Fund Balance	(1,330,272)	(1,330,272)	107,580	1,437,852
Fund Balance - Beginning	<u>1,330,272</u>	<u>1,330,272</u>	<u>1,477,633</u>	<u>147,361</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,585,213</u>	<u>\$ 1,585,213</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 608,182	\$ 608,182	\$ 627,088	\$ 18,906
Charges for Services	90,000	90,000	109,046	19,046
Miscellaneous	37,500	43,584	53,459	9,875
Total Revenues	<u>735,682</u>	<u>741,766</u>	<u>789,593</u>	<u>47,827</u>
EXPENDITURES				
Protection to Persons and Property	1,321,158	1,521,307	1,510,419	10,888
Administration	430,314	378,819	375,458	3,361
Total Expenditures	<u>1,751,472</u>	<u>1,900,126</u>	<u>1,885,877</u>	<u>14,249</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,015,790)</u>	<u>(1,158,360)</u>	<u>(1,096,284)</u>	<u>62,076</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,015,790</u>	<u>1,015,790</u>	<u>1,066,000</u>	<u>50,210</u>
Total Other Financing Sources (Uses)	<u>1,015,790</u>	<u>1,015,790</u>	<u>1,066,000</u>	<u>50,210</u>
Net Changes in Fund Balance		(142,570)	(30,284)	112,286
Fund Balance - Beginning			<u>48,240</u>	<u>48,240</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (142,570)</u>	<u>\$ 17,956</u>	<u>\$ 160,526</u>

SHELBY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	EMS FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 10,000	\$ 21,133	\$ 11,133	\$ (10,000)
Charges for Services	800,000	800,000	966,092	166,092
Miscellaneous	46,707	52,171	32,750	(19,421)
Interest			516	516
Total Revenues	<u>856,707</u>	<u>873,304</u>	<u>1,010,491</u>	<u>137,187</u>
EXPENDITURES				
Protection to Persons and Property	1,511,476	1,541,675	1,437,526	104,149
Administration	574,747	561,145	472,179	88,966
Total Expenditures	<u>2,086,223</u>	<u>2,102,820</u>	<u>1,909,705</u>	<u>193,115</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,229,516)</u>	<u>(1,229,516)</u>	<u>(899,214)</u>	<u>330,302</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,229,516</u>	<u>1,229,516</u>	<u>929,500</u>	<u>(300,016)</u>
Total Other Financing Sources (Uses)	<u>1,229,516</u>	<u>1,229,516</u>	<u>929,500</u>	<u>(300,016)</u>
Net Changes in Fund Balances			30,286	30,286
Fund Balances - Beginning			<u>3,500</u>	<u>3,500</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 33,786</u>	<u>\$ 33,786</u>

SHELBY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

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**SHELBY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

**SHELBY COUNTY
COMBINING BALANCE SHEET –
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 105,543	\$ 274,175	\$ 216,085	\$ 595,803
Total Assets	<u>\$ 105,543</u>	<u>\$ 274,175</u>	<u>\$ 216,085</u>	<u>\$ 595,803</u>
FUND BALANCES				
Unreserved:				
Debt Service Fund	\$	\$	\$ 216,085	\$ 216,085
Special Revenue Funds	105,543	274,175		379,718
Total Fund Balances	<u>\$ 105,543</u>	<u>\$ 274,175</u>	<u>\$ 216,085</u>	<u>\$ 595,803</u>

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SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

SHELBY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	LGEA Fund	Special Fund	KACOLT Fund	Total Non-Major Governmental Funds
REVENUES				
Intergovernmental	\$ 30,442	\$ 112,954	\$ 34,574	\$ 177,970
Interest		1,501	831	2,332
Total Revenues	<u>30,442</u>	<u>114,455</u>	<u>35,405</u>	<u>180,302</u>
EXPENDITURES				
General Health and Sanitation		70,410		70,410
Debt Service			35,057	35,057
Administration		24		24
Total Expenditures		<u>70,434</u>	<u>35,057</u>	<u>105,491</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>30,442</u>	<u>44,021</u>	<u>348</u>	<u>74,811</u>
Net Change in Fund Balances	30,442	44,021	348	74,811
Fund Balances - Beginning	75,101	230,154	215,737	520,992
Fund Balances - Ending	<u>\$ 105,543</u>	<u>\$ 274,175</u>	<u>\$ 216,085</u>	<u>\$ 595,803</u>

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**SHELBY COUNTY
COMMENT AND RECOMMENDATION
Other Supplementary Information**

For The Year Ended June 30, 2004

**SHELBY COUNTY
COMMENT AND RECOMMENDATION
Other Supplementary Information
Fiscal Year Ended June 30, 2004**

STATE LAWS AND REGULATIONS:

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$374,173 of public funds uninsured and unsecured and on June 30, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$79,603 of public funds uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the county require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Rob Rothenburger's Response:

Shelby County no longer utilizes the bank where these funds were deposited. We will keep a closer handle on the collateral.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None

PRIOR YEAR:

The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Rob Rothenburger, Shelby County Judge/Executive
Members of the Shelby County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Shelby County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, and have issued our report thereon dated January 20, 2005. Shelby County presents its financial statements in accordance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Shelby County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Shelby County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, the Shelby County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 20, 2005

CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

SHELBY COUNTY FISCAL COURT

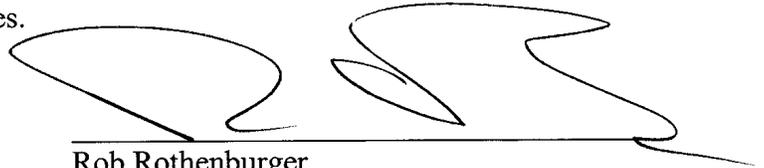
For The Fiscal Year Ended
June 30, 2004

Appendix A

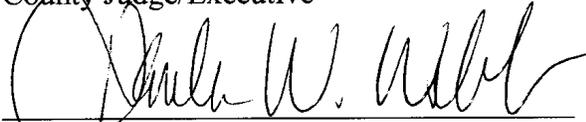
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
SHELBY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Shelby County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Rob Rothenburger
County Judge/Executive



Paula Webb
County Treasurer